Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at http://about.jstor.org/participate-jstor/individuals/early-journal-content.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact support@jstor.org.

# THE FINANCIAL DIFFICULTIES OF SAN DOMINGO

By Jacob H. Hollander, Ph.D.,
Professor of Political Economy, Johns Hopkins University, and former Treasurer of Porto Rico and Confidential Agent of the United States to San Domingo.

The growth of the debt of San Domingo has an intricate and involved history. If, however, attention be turned from the mass of complex details to the underlying forces which have reduced the republic to its condition of sodden bankruptcy, the whole matter becomes astonishingly simple.

As it now exists the debt of San Domingo is, essentially, the result of three elements, viz.: The periodic accumulation of current obligations in consequence of revolutionary disturbances and civil disorders; (2) the extravagant terms upon which such temporary loans have originally been obtained and have been subsequently funded; (3) the chronic default in the service of the debt, funded and floating, and the consequent rapid increase of principal.

It is possible to point out certain other occasions which have given rise to the contraction of indebtedness, such as the construction of the Puerto Plata Santiago Railroad, the erection of a few wharves and public buildings, the purchase of two unimportant gunboats, and the settlement of indemnity claims; but, all things considered, the number of these is few and their aggregate importance is relatively slight. In the three occasions for debt accumulation enumerated above—to a further consideration of which attention is now invited—the history of the Dominican debt is essentially comprised.

It is an obvious commonplace to speak of political instability as the keynote of the financial collapse of San Domingo. But this is, after all, the alpha and omega of the situation. In the brief intervals during which the country was not threatened by, or actually in the throes of, revolution, a disproportionate part of the public revenues were applied to the purchase of war supplies and the maintenance of a rag-tag soldiery, leaving other parts of the budget to accumulate in default. At other times the amounts so expended

virtually absorbed all available funds. Thus, in the fiscal years 1903 and 1904 "military and naval" expenditures formed 71.7 and 72.6 per cent, respectively, of the republic's ordinary disbursements.

It should be clearly understood at the outset that a Dominican "revolution" bears as little resemblance to what the American mind understands by the term as do the Dominican "generals" who figure therein correspond to the similarly named officers of our own military establishment. It is not in any sense a popular uprising, wherein a mass of people, inspired by love of country or liberty, seek to overthrow or reconstruct an existing government. The phrases "patria" and "libertad" figure abundantly in the pronunciamientos of every insurrectionist leader; but their significance is absolutely nothing more than as rhetorical expletives and claptrap equipment. A Dominican revolution might be briefly defined as the attempt of a bandit guerrilla to seize a custom house. In the background, acting as a moving force, will ordinarily be found a political malcontent, ambitious to overthrow the dictator president in power and to succeed in control, to his own profit. But the custom house and the insurgent chief are the real keys to the situation.

San Domingo, while nominally a republic, is even in constitutional form a highly decentralized government. For administrative purposes the country is divided into twelve provinces, each under a governor appointed by the president of the republic. Each governor is in command of the detachment of the national "army" stationed in that province and is also the head of a district provincial and, sometimes, indeed, of a municipal police. Theoretically the provincial administrations are organic parts of the central government. As a matter of fact, in consequence of the weakness of the central government and the difficulty of communication between the several parts of the country, each province has tended to become a virtually independent, semi-feudal principality. Appropriations for the expenses of the province are made nominally in the national budget; but, as a result of the chronic depletion of the national treasury and the almost entire dependence upon customs receipts, the expenses of the province were paid directly out of the proceeds of the custom houses located therein or adjacent thereto. Thus, the custom house of Monte Cristi paid the expenses of the Province of Monte Cristi; that of Puerto Plata, the expenses of Puerto Plata, Santiago and

Moca; that of Samana, the expenses of Samana, except the commune of Sanchez; that of Sanchez, the expenses of La Vega and Pacificador and the commune of Sanchez; that of Macoris, the expenses of Macoris and Seybo; that of Santo Domingo city, the expenses of Santo Domingo and the deficits in Azua and Barahona, the receipts from whose respective custom houses were ordinarily insufficient.

The strategic importance of a custom house in Dominican politics can now be better appreciated. So long as this prime source of public revenue continued in the hands of constituted authorities everything remained tranquil; the soldiers received their pay, the civil officials collected their salaries, and the governor garnered his perquisites. But the situation changed magically the moment control was lost of the custom house and the all-important source of public revenue cut off. The governor, if he were not already active in the insurrectionist cause, either fled in defeat or awaited overtures; the army deserted to a man to the new standard, and the civil service retired to cacao farming to wait until a new turn of the political whirligig invited emergence.

The natural history of a Dominican revolution was, therefore, something as follows: The machinery of the existing government, after running smoothly for a while, had begun to creak in consequence of clamorous creditors, disappointed office-seekers and personal grievances. Some political parasite or chronic malcontent—perhaps the last-ousted dictator-president of the republic—took the initiative. Occasionally, from his own private resources, much oftener through the speculative venture of a merchant lender, he secured money or credit, a part of which was immediately expended in the purchase and secret landing of fighting supplies. The particular province—if more than one, so much the better—where, in consequence of remoteness or personal unpopularity, dissatisfaction against the government seemed most likely, became the scene of conspiracy. If the governor of the province could be won over by promise or price, the revolution was forthwith an accomplished fact. If he remained unshaken in his loyalty the services were bought of one or more desperado chieftains—technically described as "generals," or, if more modest, as "chiefs"—with feudal-like bands of followers attached, to whom this guerrilla service was as regular a business as cacao or plantain cultivation was to the bulk of the

population. A period of fighting followed, the issue of which was determined by the seizure of the custom house. If the custom house could not be taken, the insurrectionist army melted away by desertion; the funds on hand were exhausted, and no further advances could be obtained. The "general," with a handful of devoted followers, escaped to the mountains to carry on a desultory fight until he was induced by guarantee of personal safety and a grant of an "asignacion" to lay down his arms and "come in." If, on the other hand, the custom house could be captured and held by the insurrectionists, the pockets of the bandit leaders were promptly filled by advances from local merchants until the fortnightly steamer arrived with its heavily dutiable cargo. The revolutionist army grew in number and in loyalty, and here again the revolution was well under way.

Now, all of this was the work of a handful of men, and practically of the same handful. It is a conservative estimate to say that no more than a dozen political agitators have been, at bottom, responsible for the score of revolutions, successful and unsuccessful, which have cursed San Domingo during the past ten years, and that no more than forty insurgent chiefs have executed them. Indeed, the entire initial strength of a successful insurgent force was never more than a hundred ragamuffins. They prevailed, even to the extent of overthrowing the existing government, exactly in the same way that a brace of train robbers can in broad daylight hold up a whole company, or a few desperadoes can raid an entire town.

The people of San Domingo were the victims, not the constituents of such "revolutions." The average Dominican, and especially he of the countryside, is a quiet, peace-loving, law-abiding, moderately hardworking peasant. In many particulars he is a typical West Indian, with his petty vices of cockfighting and rum drinking, inclining to be "married," but not "parsoned," living in a rough shack, rearing a numerous progeny, owning a few cattle, pigs and chickens, cultivating a little patch of communal-owned land planted in cacao, tobacco or plantain, and working no harder than he does because a too bounteous nature has made it unnecessary for him to do so. He is hospitable and well-intentioned, and under ordinary conditions it is safer for a traveler to ride by day or night alone and

unarmed through even the most remote parts of the country than it would be for him in many rural districts of the United States.

The Dominican is superior physically to the ordinary West Indian peon, for his country is richer and his relative numbers are fewer. Underfeeding and anemia have not devitalized him, and he possesses every capacity of becoming a decent and prosperous peasant. That he has been prevented from becoming so in the past is because of the supreme travesty upon government under which he has been plundered and pillaged. In times of peace he has been crushed by a system of taxation wherein property and incomes are exempt, and the necessary consumption of the poorest classes—flour, beans, codfish, cotton cloth and illuminating oil—are burdened at least 100 per cent, enhancing retail prices often to three times their normal level. He groans under an annual expenditure, central and local, of at least two and one-half million dollars, of which the largest part has gone in salaries to the "army" and to professional politicians and their parasites, and much of the remainder has been wasted or stolen; while roads, schools and public institutions have been neglected. If he were wronged there was no justice to be had. If he were sick or in want he suffered as the dogs of the town. If he were stricken or diseased he festered by the wayside. He lived under a despotism, and as absolutely a malevolent one as our day and generation are likely to witness.

All this is in the infrequent intervals of peace. When the country was threatened with insurrection or actually in the throes of revolution the condition of the ordinary Dominican became well-nigh intolerable. He or his sons or his laborers, if he had any, were likely to be drafted into the government army or kidnapped into an insurrectionist band, or blackmailed by the threat of such procedure. His horses, cattle, donkeys—even his goats and chickens—would be stolen or commandeered in return for "vales" or evidences of indebtedness, which were as worthless to him as the stones on the ground. His houses might be burned, his fruit trees stripped, his fields pillaged, and he left prostrate and terrorized. This was the visible mischief. But perhaps even more important was the further indirect hurt which every succeeding Dominican revolution brought in its train, from the accumulation of more debt, the imposition of heavier taxes, the alienation of valuable conces-

sions, and the complete demoralization of whatever degree of the government survives.

With the actual appearance of serious revolutionary uprisings the whole financial machinery of the republic—if a scanty hand-to-mouth procedure can be dignified by that name—invariably broke down, and a bitter struggle for bare financial existence took its place. One or more custom houses were ordinarily threatened or actually in the hands of revolutionists, and the customs revenues, insufficient at best, became thereafter hopelessly inadequate. Anything like additional taxation at such a juncture was a device so futile as not to be entertained by even the most desperately threatened administration. Moreover, the slightest delay in the payment of an already insubordinate "army" meant prompt desertion to the insurrectionist cause, and further enlistment of men and purchase of supplies were possible only upon the basis of ready funds actually in hand.

To a dictator-president thus beset, borrowing was not only the easiest, but the only possible course. His hands were never tied by constitutional procedure, taking the form of a recalcitrant national congress or an articulate public sentiment. Nor was his conscience troubled at the effect of such a policy upon the present well-being or the future resources of the country. His one concern was to keep himself in control and to destroy or placate the insurrectionists. Accordingly, he had instant recourse to the merchant lenders of the country, and, with supreme indifference as to the terms of the loan or the amount and character of the securities, borrowed up to the last dollar that could be coaxed or threatened.

It will thus be seen that this class of merchant bankers have played an important part in the history of the Dominican debt. Representatives flourished, and still exist, in Santo Domingo city, in Puerto Plata, in Santiago, and in every commercial center of the island, ordinarily combining export and import with retail trade, and gradually extending their activities to landowning and money-lending. Almost invariably of foreign origin, and carefully maintaining for greater security their foreign citizenship or some equivalent connection, this small, more or less intimately associated body, have in large degree influenced such limited economic development of San Domingo as has taken place, and at the present time virtually control its commercial contact with the outside world.

Individually considered, this body of merchant lenders run the full gamut from high-minded business men, sensible of the country's resources and its legitimate opportunities, seeking fairly to develop their own affairs and driven to other courses only in face of peril to person and property, all the way to merciless, blood-sucking money sharks, whose opportunity has been the country's prostration, who have exploited every crisis to the fullest, who have, in the hope of resultant gain, sometimes provoked and certainly often made possible insurrection when it did not otherwise exist, and who, while apparently taking the gambler's chance and demanding the gambler's odds, have been careful to use loaded dice and sure manipulation.

Upon the outbreak of a serious insurrection, the ordinary procedure for the dictator-president in power—assuming, as we safely may, a depleted treasury—was to seek from his most favorably disposed merchant lenders immediate funds to maintain his soldiery, to enlist reinforcements, and to secure necessary supplies. For such funds he gave either "vales" (transferable custom house receipts valid in payment of export or import dues) or "reconocimientos" (evidences of indebtedness of treasury due bills). Such securities bore interest at a specified rate per month, or included in their face value the capitalized amount of such interest, or, most frequently of all, did both.

A Dominican insurrection or "revolution" was rarely fought to a finish. A certain point in the struggle once attained, both parties turned instinctively to a settlement. This ordinarily took the form of extending guaranties of personal safety to the insurrectionists, of appointing their surviving leaders to public office, of rewarding their military service by outright payments or annual pensions ("asignaciones"), and of recognizing the validity of indemnity claims for injuries, fancied and real, suffered at the hands of insurrectionists or of government forces. If the insurrection had any validity, the government, weakened though triumphant, showed no disposition to haggle as to the amount or terms of such obligations. They related to a remote and imperfectly realized future, and the troubles immediately at hand were urgent and absorbing. The ship of state sailed on, in serene unconcern of the mass of swollen, fraudulent debt left in its wake.

Indeed, the very cost of the insurrection, as well as the expense

of suppressing or pacifying it, was commonly crystallized sooner or later into a government debt. The sinews of a Dominican revolution would naturally be supplied by the merchant bankers of San Domingo—sometimes animated by a laudable desire to rid the country of an intolerable tyranny; more often venturing the advance as a cold-blooded and deliberate speculation. If the insurrection were successful, such advances were always recognized and a handsome return accrued to the underwriters. Moreover, the newly constituted government was too weak, politically and financially, to repudiate the obligations issued by the administration just overthrown, especially if they had found their way, as they ordinarily would have done, into the hands of the very merchants from whom further advances must immediately be sought. If the insurrection were unsuccessful, the promissory papers issued by the defeated insurrectionists were carefully preserved by thrifty lenders until a new political crisis brought the unsuccessful aspirants again to the fore, when all past accounts were liquidated at extravagant rates.

Public borrowing by a country with the unsavory past and the uncertain political future of San Domingo must under all circumstances have been expensive. But the terms actually exacted and readily granted exceed all bounds, either of economic risk or of prudent financiering, and are as high a tribute to the rapacity of the lenders as to the mad recklessness of the borrower. This is as true of the funded as of the unfunded debt. As far back as 1869 the government contracted in the Hartmont loan to receive £320,000 in cash, and to repay an annuity of £58,900 for a term of twenty-five years, being £1,472,500 in all. In actual fact, bonds to the nominal value of £757,700 were emitted, and only £38,095 received by the Dominican treasury. In 1893 the government turned over to the San Domingo Improvement Company $1,250,000 of 4 per cent sixty-six-year gold bonds—being the entire issue of the fifth funded loan—in consideration of the payment by the company of internal debts aggregating $438,000 in gold. Similarly, in 1894, the sixth funded issue, being $1,250,000 4 per cent sixty-six-year bonds, was delivered en bloc to the San Domingo Improvement Company in return for the extinguishment of internal debts to the amount of $538,200 in gold. These transactions appear even more unfavorable to the Dominican Government when it is remembered that the floating debts thus discharged were already swollen by

excessive interest accumulation. In 1897 the French-Belgian bondholders consented to the conversion by the San Domingo Improvement Company, acting as the republic's fiscal agents, of their 4 per cent holdings into 2¾ per cent obligations. But the entire benefit that might have been expected to accrue from this operation was lost to the Dominican Government by the incomprehensible issue of an additional £600,000 of the new securities, out of which the government received a bare £50,000 ($250,000) in cash, and the remainder of which seems to have been absorbed in defraying the expenses and commissions incident to the conversion.

It is, however, when we turn from the funded to the unfunded debt that we come full face upon a high carnival of incredible usury and scandalous overcharge that differentiates itself only by slight distinction, if at all, from thievery and fraud.

Prior to 1888 we are told that the ordinary rate charged the government by the local "credit companies" for advances of current funds was 10 per cent a month. Under more favorable conditions the rate seems to have fallen to 5 per cent a month; but almost up to the present time the interest charge, commonly made by merchant lenders for advances to the government upon such reasonably safe security as transferable customs receipts, has been 2 per cent a month, compounded at brief intervals.

The rates paid for emergency loans, or for advances secured only by a pledge of public credit, must have been very much higher. The scanty treasury records throw little light upon the real character of such loans, and the obligations issued invariably mask the transactions by partially capitalizing the interest compensation in their face value. On June 30, 1897, a European firm made a contract loan of $100,000 (400,000 marks) to President Heureaux—nominally to meet an overdue coupon upon the bonded debt, but which, it is claimed, was never so applied—at the rate of 2 per cent a month. On October 12, 1903, the principal and arrears of interest of this claim amounted to $244,800. In 1897-1899, during the closing years of President Heureaux's administration, the Dominican comptroller's office or "contaduria" issued forty-six certificates of indebtedness in favor of Heureaux for funds alleged to have been advanced by him to the government. Of these, forty-one certificates of an aggregate value of $1,025,246.12 bore interest at the rate of 2 per cent a month. As liquidated on March 2, 1901, the interest charge,

which had throughout remained in arrears, had accumulated to $667,303.82, and at the present time it is estimated at $1,713,931.90.

These illustrations are fairly typical of the current loans of San Domingo during the entire period under consideration. Such transactions can only be understood in the light of a government borrower void of every regard for the country's present or future well-being and struggling desperately for mere existence, to whom a public obligation was as meaningless as the value denomination which it bore, and, on the other hand, of a series of merchant lenders, sometimes bullied and threatened, at other times voluntary and deliberate, in the main rapacious, unscrupulous, and identified with the welfare of the country only as exploiters and speculators.

Excessive interest rates, chronic default in interest payments, and entire neglect of amortization must necessarily result in the rapid growth of the principal of the debt. The accumulation and compounding of interest in default have figured in the nominal growth of the San Domingo debt to a degree probably not less important than the two factors already considered. Unpaid creditors have taken some measure of comfort in the frequent liquidation of arrears of interest, and the full recognition of the validity of all such accumulations has been the ordinary condition of further advances.

The entire issue of the Hartmont bonds of 1869 (£757,000) was emitted, fairly or fraudulently, between 1869 and 1888, in return for an advance of £38,095 to the Dominican Government. Of the principal of the 1888 loan, £50,922 was retained to pay current charges upon the funded debt, and of the 1890 loan, a further amount of £51,822 for the same purpose. Practically the entire principal of the three issues of French-American reclamation consols in 1893-1895, aggregating $4,250,000, and a further sum (£277,980) of the refunding 4 per cent bonds of 1897, were devoted to the discharge of current accounts, in which arrears of interest figured largely. Finally, of the 2¾ per cent gold obligations of 1897, the sum of £101,750 was required for the discharge of interest in arrears of the consolidated bonds of 1893. In general, it may be said that the funding of floating indebtedness and the conversion of old into new bond issues invariably involved the capitalizing of very considerable arrears of interest.

The accumulation of the unfunded debt forms an even more

extraordinary, though, unfortunately, a less accessible, history. Certain details of this have been given in connection with what has been stated of the excessive rates of interest upon current obligations, and a few further examples may be cited. Thus, a floating debt converted on June 7, 1902, into 3 per cent securities of the consolidated internal debt to the amount of $102,361.49 had its sole origin in a credit of $15,970.24 in February, 1889, and, therefore, includes interest accumulations to the amount of $86,391.25 for a term of thirteen years, or more than five times the principal sum. Two loans, to the aggregate amount of $369,732.37, bearing interest at the rate of 2 per cent a month, were made in 1896 to the "regie" and guaranteed by the Dominican Government. Redemption payments were made with more or less regularity until 1900; but despite this the present nominal amount of the claim is $812,505.79. The traveling expenses of a certain revolutionary propagandist in 1902-3 to the amount of $6,857 were acknowledged with a bonus of 100 per cent, apparently regarded as interest compensation. Transactions of this nature are unusual only with respect to publicity, and their essential character is typical of a large part of the Dominican unfunded debt.